

#### **§ 367.14**

The service company is not required to anticipate minor items which would not appreciably affect these accounts.

(b) When payments are made in advance for items such as insurance, rents, taxes or interest, the amount applicable to future periods must be charged to account 165, Prepayments (§367.1650), and spread over the periods to which they are applicable by credits to account 165 (§367.1650), and charges to the accounts appropriate for the expenditure.

#### **§ 367.14 Transactions with associate companies.**

Each service company must keep its accounts and records so as to be able to furnish accurately and expeditiously statements of all transactions with associate companies. The statements may be required to show the general nature of the transactions, the amounts involved in the transactions and the amounts included in each account prescribed in this part with respect to such transactions. Transactions with associate companies must be recorded in the appropriate accounts for transactions of the same nature. Nothing contained in this part, however, must be construed as restraining the service company from subdividing accounts for the purpose of recording separately transactions with associate companies.

#### **§ 367.15 Contingent assets and liabilities.**

Contingent assets represent a possible source of value to the service company contingent upon the fulfillment of conditions regarded as uncertain. Contingent liabilities include items that, under certain conditions, may become obligations of the service company but that are neither direct nor assumed liabilities at the date of the balance sheet. The service company must be prepared to give a complete statement of significant contingent assets and liabilities (including cumulative dividends on preference stock) in its annual report and at such other times as may be requested by the Commission.

#### **18 CFR Ch. I (4–1–14 Edition)**

#### **§ 367.16 Long-term debt: Premium, discount and expense, and gain or loss on reacquisition.**

(a) A separate premium, discount and expense account must be maintained for each class and series of long-term debt (including receivers' certificates) issued or assumed by the service company. The premium must be recorded in account 225, Unamortized premium on long-term debt (§367.2250), the discount must be recorded in account 226, Unamortized discount on long-term debt—Debit (§367.2260), and the expense of issuance must be recorded in account 181, Unamortized debt expense (§367.1810). The premium, discount and expense must be amortized over the life of the respective issues under a plan that will distribute the amounts equitably over the life of the securities. The amortization must be on a monthly basis, and the amounts relating to discounts and expenses must be charged to account 428, Amortization of debt discount and expense (§367.4280). The amounts relating to premiums must be credited to account 429, Amortization of premium on debt—Credit (§367.4290).

(b) When long-term debt is reacquired the difference between the amount paid upon reacquisition of any long-term debt and the face value, adjusted for unamortized discount, expenses or premium, as the case may be, applicable to the debt redeemed must be recognized currently in income and recorded in account 421, Miscellaneous income or loss (§367.4210), or account 426.5, Other deductions (§367.4265).

#### **§ 367.17 Comprehensive inter-period income tax allocation.**

(a) Where there are timing differences between the periods in which transactions affect taxable income and the periods in which they enter into the determination of pretax accounting income, the income tax effects of such transactions are to be recognized in the periods in which the differences between book accounting income and taxable income arise and in the periods in which the differences reverse using the deferred tax method. In general, comprehensive inter-period tax allocation should be followed whenever

transactions enter into the determination of pretax accounting income for the period even though some transactions may affect the determination of taxes payable in a different period, as further qualified in this section.

(b) Once comprehensive inter-period tax allocation has been initiated, either in whole or in part, it must be practiced on a consistent basis and must not be changed or discontinued without prior Commission approval.

(c) Tax effects deferred currently will be recorded as deferred debits or deferred credits in accounts 190, Accumulated deferred income taxes (§367.1900), 282, Accumulated deferred income taxes—Other property (§367.2820), and 283, Accumulated deferred income taxes—Other (§367.2830), as appropriate. The resulting amounts recorded in these accounts must be disposed of as prescribed in this system of accounts or as otherwise authorized by the Commission.

#### § 367.18 Criteria for classifying leases.

(a) If, at its inception, a lease meets one or more of the following criteria, the lease must be classified as a capital lease. Otherwise, it must be classified as an operating lease.

(1) The lease transfers ownership of the property to the lessee by the end of the lease term.

(2) The lease contains a bargain purchase option.

(3) The lease term is equal to 75 percent or more of the estimated economic life of the leased property. However, if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property, including earlier years of use, this criterion must not be used for purposes of classifying the lease.

(4) The present value at the beginning of the lease term of the minimum lease payments, excluding that portion of the payments representing executory costs such as insurance, maintenance, and taxes to be paid by the lessor, including any related profit, equals or exceeds 90 percent of the excess of the fair value of the leased property to the lessor at the inception of the lease over any related investment tax credit retained by the lessor and expected to be realized by the lessor. However, if

the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property, including earlier years of use, this criterion must not be used for purposes of classifying the lease. The lessee must compute the present value of the minimum lease payments using its incremental borrowing rate, unless:

(i) It is practicable for the company to learn the implicit rate computed by the lessor, and

(ii) The implicit rate computed by the lessor is less than the lessee's incremental borrowing rate.

(iii) If both of those conditions are met, the lessee must use the implicit rate.

(b) If, at any time, the lessee and lessor agree to change the provisions of the lease, other than by renewing the lease or extending its term, in a manner that would have resulted in a different classification of the lease under the criteria in paragraph (a) of this section had the changed terms been in effect at the inception of the lease, the revised agreement must be considered as a new agreement over its term, and the criteria in paragraph (a) of this section must be applied for purposes of classifying the new lease. Likewise, any action that extends the lease beyond the expiration of the existing lease term, such as the exercise of a lease renewal option other than those already included in the lease term, must be considered as a new agreement and must be classified according to the criteria in paragraph (a) of this section. Changes in estimates (for example, changes in estimates of the economic life or of the residual value of the leased property) or changes in circumstances (for example, default by the lessee) must not give rise to a new classification of a lease for accounting purposes.

#### § 367.19 Accounting for leases.

(a) All leases must be classified as either capital or operating leases.

(b) The service company must record a capital lease as an asset in account 101.1, Property under capital leases (§367.1011) and an obligation in account 227, Obligations under capital leases—Non-current (§367.2270), or account 243,